

Message Text

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CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 CIAE-00 COME-00 FRB-03 INR-11

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 FEAE-00 SEC-03

AGR-20 PM-07 DODE-00 DRC-01 /199 W

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R 091759Z AUG 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 1474

INFO AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 18177, JULY 26, 1974

1. INFLATION SUBSIDIES IN JUNE -

RETAIL PRICES ADVANCED "ONLY" 1.1 PERCENT IN JUNE, A NOTICEABLE IMPROVEMENT OVER EARLIER MONTHS OF THE YEAR. FOR THE FIRST 6 MONTHS OF 1974 PRICES INCREASED 8.4 PERCENT. FINANCE MINISTER FOURCADE ATTRIBUTED THE PROGRESSIVE REDUCTION OF THE RATE OF INFLATION DURING THE LAST TWO MONTHS TO THE UNWINDING OF THE EFFECTS OF EARLIER PETROLEUM PRICE INCREASES AND TO

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FAVORABLE MOVEMENTS IN AGRICULTURAL PRICES. HE SAID

THAT EVEN THOUGH JULY'S PERFORMANCE MIGHT BE POOR DUE TO ENERGY PRICE INCREASES AND THE UNFREEZING OF RENTS, THERE SHOULD BE A FURTHER REDUCTION IN THE INFLATION RATE IN AUGUST AND SEPTEMBER. IN A LATER INTERVIEW THE FINANCE MINISTER RESTATED THE GOF OBJECTIVE OF REDUCING INFLATION TO 6 PERCENT IN THE SECOND HALF OF 1974 AND 4 PERCENT IN THE FIRST HALF OF 1975.

AMONG SECTORS MANUFACTURED GOODS CONTINUED TO LEAD THE RISE, WITH PRICES RISING AN AVERAGE 1.2 PERCENT IN JULY. SERVICES WENT UP 1.1 PERCENT WHILE FOOD PRICES INCREASED BY 0.9 PERCENT.

2. CREDIT RESTRICTIONS HELD STEADY - GOF GIVES HELP TO HARD-HIT FIRMS -

FOLLOWING INCREASING COMPLAINTS OF FIRMS ABOUT THE SEVERITY OF THE CURRENT CREDIT RESTRICTIONS COMBINED WITH THE ADDITIONAL CORPORATE PROFITS TAX SURCHARGE, THE GOF HAS SET UP A PROCEDURE WHEREBY FIRMS IN A TIGHT FINANCIAL SQUEEZE CAN APPEAL TO SPECIAL LOCAL BOARDS FOR LOANS, DEFERRAL OF TAXES, OR ACCELERATED GOVERNMENT PAYMENTS. THE FINANCE MINISTER NOTED THAT 184 PROPERLY DOCUMENTED APPEALS HAD BEEN RECEIVED IN JULY. SOME FORM OF AID HAD ALREADY BEEN GRANTED TO 49 FIRMS. IN ADDITION, THE BANK OF FRANCE HAS SENT A CIRCULAR LETTER TO ALL BANKS ASKING FIRST THAT BANKS NOT CUT OFF A STANDING LINE OF CREDIT WITHOUT WARNING AND SECOND TO ENSURE THAT SMALL AND MEDIUM SIZED FIRMS GET THEIR FAIR SHARE OF RESOURCES.

THE CEILINGS ON THE ALLOWED PERCENTAGE INCREASE IN BANK LENDING HAVE BEEN SET AT A CONSTANT RATE OF 13 PERCENT THROUGH SEPTEMBER. THE CEILINGS LIMIT EACH BANK'S LOANS OUTSTANDING AT THE END OF MONTH TO A CERTAIN PERCENTAGE INCREASE OVER ONE YEAR BEFORE. AS THE LIMITS WERE PROGRESSIVELY TIGHTENED TO AS LOW AS GFQ OR 12 PERCENT EARLIER THIS YEAR, MANY BANKS WERE UNABLE TO STAY WITHIN THE CEILINGS. (THE BANK STRIKE THIS APRIL HAS ALSO FORCED SOME BANKS TO INVOLUNTARILY UNCLASSIFIED

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EXCEED THE CEILINGS.) SINCE MAY THE MONTHLY LIMITS WERE RAISED TO 13 PERCENT AND OTHER MEASURES HAVE RECENTLY BEEN TAKEN TO REMOVE SPECIFIC CATEGORIES OF CREDIT FROM THE OVERALL CEILINGS. THE PRIVATE BANK PORTION OF THE 4 BILLION FRANC EXPORT INVESTMENT LOAN IS ONE EXAMPLE. ANOTHER IS THE SEPARATE HIGHER CEILINGS OF 19 PERCENT RECENTLY ANNOUNCED FOR SHORT TERM EXPORT CREDITS.

WITH THE MODERATE EASING OF RESTRICTIONS, BANKS
HAVE BEEN ABLE TO COMPLY WITH THE LIMITS DURING RECENT
MONTHS, EXCEPT FOR CREDIT LYONNAIS WHICH IS REPORTED
TO BE STILL SUFFERING EFFECTS OF THE STRIKE.

3. SURVEY SHOWS GROWTH SLOWING AS CONSUMPTION SLACKS -

RESPONDANTS TO THE INSEE MONTHLY SURVEY FOR JULY

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FOUND THAT OVERALL OUTPUT CONTINUED MODERATE GROWTH
BUT THAT MORE AND MORE SIGNS WERE POINTING TO A
SLACKENING IN THE ECONOMY. UNFILLED ORDERS INCREASED
SLIGHTLY, BUT THIS WAS LARGELY A SEASONAL MOVEMENT, AND

WAS RESTRICTED TO EQUIPMENT GOODS. INVENTORIES CONTINUED TO INCREASE SLIGHTLY.

PESSIMISM WAS EVIDENT IN THE OUTLOOK OF SURVEY RESPONDANTS. FIRMS CONTINUED TO FORECAST AN ACTUAL DROP IN THEIR OWN PRODUCTION AS THEY DID LAST MONTH. THEY NOW ALSO FORECAST A DROP IN OVERALL PRODUCTION.

THE SLOWDOWN IN PRODUCTION AND PESSIMISM IN OUTLOOK HAS BEEN CENTERED IN THE CONSUMER GOODS SECTOR. GROWTH CONTINUED VERY SLOW AS AUTOMOBILE PRODUCTION CONTINUED UNCLASSIFIED

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TO DECLINE, WITH ONLY HOUSEHOLD APPLIANCES SHOWING CONTINUED GROWTH. UNFILLED ORDERS CONTINUED TO FALL AND INVENTORIES INCREASED SLIGHTLY TO A LEVEL NOW JUDGED "NORMAL". THE SURVEY OF RETAILERS CONFIRMS THAT THIS IS THE WEAK SPOT IN THE CURRENT FRENCH . ECONOMY.

EQUIPMENT GOODS DEMAND, ON THE CONTRARY, APPEARS TO BE MAINTAINING ITS STRENGTH. UNFILLED ORDERS HAVE CONTINUED TO GROW TO VERY HIGH LEVELS. INVENTORIES IN JULY STAYED APPROXIMATELY CONSTANT AT LEVELS BELOW NORMAL. THE INTERMEDIATE GOODS SECTOR ALSO HAS MAINTAINED A HEALTHY PERFORMANCE AND OUTLOOK, THOUGH SOMEWHAT LESS ACTIVE THAN EQUIPMENT GOODS.

4. NEW COIN SERIES ANNOUNCED -

THE FINANCE MINISTRY HAS ANNOUNCED THAT A NEW SERIES OF 10 FRANC AND 50 FRANC COINS ARE TO BE ISSUED. THE 10 FRANC COIN WILL BEAR THE RATHER BIZARRE MODERNISTIC DESIGN SELECTED AS THE WINNER IN A NATIONAL COMPETITION. IT WILL BE MADE OF CUPRO-NICKEL, WEIGHING 10 GRAMS. THE 50 FRANC COIN WILL REPLACE THE PROPOSED ISSUE OF 20 FRANC COINS ANNOUNCED LAST YEAR. IT WILL BE MADE OF 90 PERCENT SILVER, WEIGH 30 GRAMS, AND HAVE A DIAMETER OF 41 MM. AN ISSUE OF FOUR MILLION FOR 1974 AND A LIKE AMOUNT FOR 1975 IS PLANNED.

5. RESERVE REQUIREMENTS EASED ON SAVINGS -

THE RESERVE DEPOSIT REQUIREMENT FOR BANKS ON TIME AND SAVINGS DEPOSITS HAS BEEN REDUCED FROM 6 TO 4 PERCENT. THE CHANGE WAS EFFECTIVE JULY 31, 1974. THIS WAS REPORTED TO REDUCE BANK RESERVE REQUIREMENTS BY ABOUT 3 BILLION FRANCS.

6. OTHER REPORTS SUBMITTED DURING THE PERIOD -

AIRGRAMS

PARIS A-414 FRENCH FOREIGN EXCHANGE
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HOLDINGS JULY 26, 1974

PARIS A-416 FRENCH INDUSTRIAL PRO-
DUCTION STATISTICS JULY 29, 1974

PARIS A-440 FRENCH FOREIGN EXCHANGE
HOLDINGS AUGUST 2, 1974

PARIS A-441 1973 FRENCH BALANCE OF
PAYMENTS AUGUST 5, 1974

PARIS A-451 FRENCH FOREIGN EXCHANGE
HOLDINGS AUGUST 9, 1974
STONE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, FINANCE, INFLATION, FOREIGN EXCHANGE
Control Number: n/a
Copy: SINGLE
Draft Date: 09 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974PARIS19279
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740218-0912
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740860/aaaabzlp.tel
Line Count: 247
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: PARIS 18177, JULY 26, 1974
Review Action: RELEASED, APPROVED
Review Authority: martinjw
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUN 2002 by reddocgw>; APPROVED <22 JAN 2003 by martinjw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS
TAGS: EFIN, EGEN, FR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005